the co-operators
A Better Place For You™

Co-operators Life Insurance Company

1999 Annual Report


. . . to a better

1999 Corporate Profile
CO-OPERATORS LIFE INSURANCE COMPANY

- One of the top 15 life insurers in Canada
- Based in Regina, Saskatchewan
- Employs 460 people
- Provides life insurance protection to 470,000 Canadians under individual and group contracts
- Provides and administers extended health, dental and disability group benefits to 240,000 employees
- Administers over $560 million in funds to help Canadians reach their savings goals and meet their post-retirement needs

Strong sales and excellent retention of existing business were experienced throughout 1999, leading to a 14% increase in the number of Canadians to whom we provide life and health insurance coverage. The efforts of our field and head office staff in striving to maintain service levels during this period of rapid growth were outstanding and deserve recognition.

place for you

Message From The Chairperson

Harvey Granatier
Chairperson of the Board

"Record breaking year" is a term that applies once again to the operations of Co-operators Life. The Board of Directors congratulates the management team and staff for their efforts and, in particular, field and head office staff who worked very hard to maintain service levels during a time of rapid growth.

In 2000 The Co-operators will be a major participant in the Our Millennium Program. It's a grass-roots initiative directed by The Community Foundations of Canada in which Canadians will give of their time and resources to improve their communities.

The Co-operators focus will be on safety-oriented gifts and the Life Company's gift will be adding a special bicycle safety training program for inner city children to their very successful WiseRider Program.

Co-operators Life is poised and ready for the challenges of the new millennium. While striving to keep their hard won strength and stability, the focus remains on quality client service and product innovation for the competitive financial services arena.

Message From The President and Chief Executive Officer

G. Terry Squire
President and Chief Executive Officer

Co-operators Life has surpassed expectations once again. As we deal with the incredible amount of change that surrounds us, at The Co-operators the one constant has been the performance of our life insurance company. With a fourth consecutive year of record profits combined with substantial growth, I commend the management and staff at Co-operators Life for their obvious dedication and commitment to the organization.

The Co-operators provides a unique alternative in the insurance industry system. Our multi-channel distribution system ensures we deliver our products and services to the individual financial needs of each of our customers. In meeting their varied financial needs, we have the ability to earn our customers loyalty.

We have completed the implementation of our Agency Distribution System, which converted company offices into exclusive agencies. By year-end 1999 we had 450 Agent-owned offices. Our coast-to-coast network of over 600 exclusive sales and service outlets remains our foundation.

I look forward to the future with enthusiasm and optimism as The Co-operators continues to be "A Better Place" to provide Canadians with their life and health insurance protection.

Message From The Chief Operating Officer

Ken Berglund
Chief Operating Officer

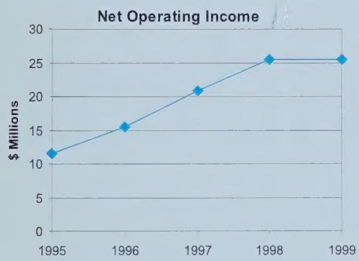
The last year of the 20th century proved to be another successful year for Co-operators Life. For the fourth consecutive year we have produced a record profit. In an industry inundated with change from consolidation and intense competition, Co-operators Life has achieved tremendous growth. We have strengthened our ability to support our niche market with The Co-operators multi-line exclusive Agency Distribution System. We have also focused our efforts on expanding our role in the group insurance market and achieved double-digit growth in this area.

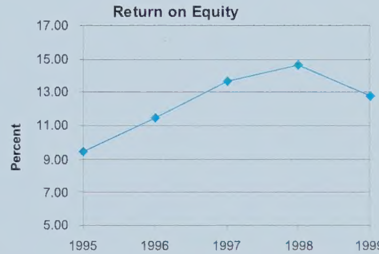
Some of our major competitors have been transforming themselves from a mutual insurance operation to a publicly traded stock insurance company. We believe this change benefits our organization and presents us with tremendous opportunity in the market place. Our values as a co-operatively owned organization will set us apart from the rest of the industry.

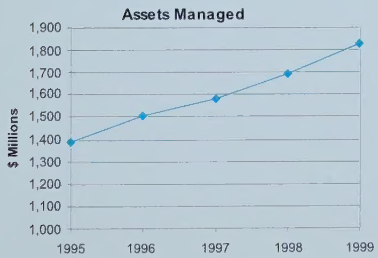
I would like to extend my appreciation to management and staff of Co-operators Life for their tremendous efforts in 1999. Their dedication to the organization is the reason for our success. The efforts put forward to ensure a smooth transition to the year 2000 reinforced that dedication and commitment to our goals.

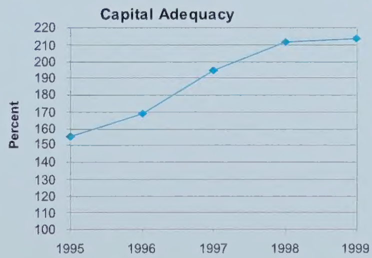
I am excited about our potential for 2000 and beyond and look forward to the challenges we face together.

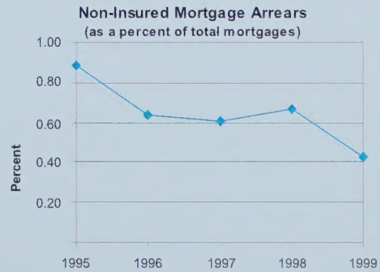
Five Years in Review











Management Discussion & Analysis

The information in this discussion should be read in conjunction with the company's financial statements and notes thereto.

Overview

The principal business of the company is to provide life insurance, health insurance and asset accumulation products to individuals and employee and association groups. The company achieves diversification of risk by being active in multiple lines of business, employing multi-channel distribution methods and actively selling in all regions of Canada. The company provides life insurance protection to over 470,000 Canadians, provides and administers extended health, dental and disability group benefits to 240,000 employees and holds over $560 million of asset accumulation funds designed to help Canadians achieve their financial goals.

From 1998 to 1999, the company's premium revenue, net of reinsurance, increased 11% to $428 million. During the same period, the company's assets under management grew 8% to $1.8 billion. Investment revenue for 1999 decreased 4% to $94 million. Fee income of $4 million, which consists primarily of management fees for segregated funds, was up 33% from 1998. Payments and provisions for policyholder benefits increased 20%. Marketing and other operating expenses, including reinsurance expense allowances, increased 11% from 1998.

Net operating income for 1999 for Co-operators Life was $25 million. The participating policyholder account was credited with $23 million of net income in 1999 and $2 million was credited to shareholders' equity.

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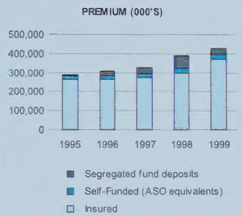
SOURCES OF PREMIUM REVENUE

The breakdown of the company's premium revenue by category, line of business and geographic area for 1995 to 1999 is reflected in the following tables. Premium revenue includes deposits to the company's pooled segregated funds, Administrative Services Only (ASO) premium equivalents and premium assumed from other federally licensed insurers, less reinsurance premium ceded.

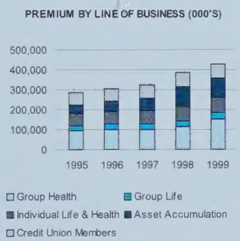
Premium Revenue



thousands	1999 $	1998 $	1997 $	1996 $	1995 $
Insured	367,337	298,002	270,496	261,595	262,803
Self-funded (ASO equivalents)	22,857	20,192	20,146	21,550	19,414
Segregated fund deposits	37,819	67,054	32,848	22,382	1,876
Total	428,013	385,248	323,490	305,527	284,093

Individual insurance, consisting of permanent, term, universal life and accidental death only policies, represented 17% of premium revenue in 1999. Group insurance, which includes life as well as a complete range of disability and health benefits, represented 44% of premium revenue. Deposits to the asset accumulation products, including individual annuities, group RSP and pension products accounted for 22% of 1999 premium revenue. 17% of premium revenue in 1999 was assumed under a 50% coinsurance agreement the company has with another federally licensed insurer to provide insurance to credit union members.

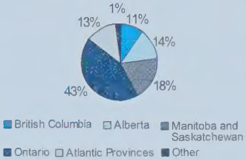
Line of Business



	1999		1998		1997		1996		1995	
thousands	$	%	$	%	$	%	$	%	$	%
Group health	151,356	35	113,915	30	101,349	31	98,802	32	93,433	33
Group life	36,407	9	30,318	8	25,634	8	28,619	9	26,897	9
Individual life & health	74,600	17	70,808	18	66,813	21	63,303	21	61,320	21
Asset accumulation	93,018	22	100,537	26	61,810	19	51,742	17	44,151	16
Credit Union member	72,632	17	69,670	18	67,884	21	63,061	21	58,292	21
Total	428,013	100	385,248	100	323,490	100	305,527	100	284,093	100

Geographic Area

Geographic Area



	1999		1998		1997		1996		1995	
thousands	$	%	$	%	$	%	$	%	$	%
British Columbia	45,478	11	31,059	8	30,804	9	27,382	9	36,044	12
Alberta	58,523	14	56,262	15	39,640	12	35,789	12	27,560	10
Manitoba and Saskatchewan	77,966	18	74,243	19	69,980	22	69,873	23	55,784	20
Ontario	184,431	43	171,930	45	141,624	44	129,896	43	123,239	43
Atlantic Provinces	55,497	13	46,100	12	37,204	12	37,852	12	36,374	13
Other	6,118	1	5,654	1	4,238	1	4,735	1	5,092	2
Total	428,013	100	385,248	100	323,490	100	305,527	100	284,093	100

Premium revenue increased 11% in 1999. The largest source of this increase was the two consecutive years of record-breaking sales of group insurance products. Group insurance premium was further increased by the assumption of $8 million of premium from another federally licensed insurer under an agreement to transfer a group long term disability client to Co-operators Life. An industry-wide drop in demand for equity-based investments affected contributions to our segregated funds. However, deposits to the insured asset accumulation products increased by 65% in 1999. Included in this category is $13 million which was credited to the group asset accumulation product line to provide monthly annuity payments to long-service fishers and fish plant workers in the Atlantic Provinces under a joint Federal/Provincial initiative.

SELECTED FINANCIAL INFORMATION

	1999	1998	1997	1996	1995
thousands	$	$	$	$	$
Premium income*	428,013	385,248	323,490	305,527	284,093
Investment income	93,940	97,734	94,461	86,314	87,346
Fees and other income*	3,694	2,787	2,357	1,433	539
Policyholder benefits*	326,252	272,578	254,827	259,453	265,763
Operating expenses	109,309	98,245	90,646	80,426	79,322
Net income before taxes	45,536	42,053	35,504	25,800	19,632
After tax income attributable to:					
Participating Policyholders	22,794	14,205	13,600	7,188	9,409
Shareholders	2,142	10,748	6,704	7,912	1,823
Total	24,936	24,953	20,304	15,100	11,232

* differs from audited statements due to ASO business

Net income before tax for 1999 increased from $42.1 million to $45.5 million -- 8% over 1998. The major reasons for the increase were better than expected mortality experience; continued positive performance of our Credit Union member coinsurance program; net positive changes in assumptions used in establishing actuarial liabilities; and increased use of reinsurance under favourable terms. Net income was negatively impacted by the adverse morbidity experience of the group health insurance products and the strain created by the high level of sales in 1998 and 1999.

Investment income declined by 4% in 1999 over 1998 as positive returns on invested assets were offset by increases in the provision for asset defaults and our decision to reduce the carrying value of the company's own use real estate.

Fees and other income primarily includes the revenue resulting from the management of segregated funds. The growth in segregated funds under management has been significant over the past few years, leading to a 33% growth in fees and other income from 1998 to 1999 and 585% growth since 1995.

Policyholder Benefit Expense

thousands	1999 $	1998 $	1997 $	1996 $	1995 $
Increase in actuarial liabilities	64,051	13,707	10,445	37,956	48,644
Policyholder payments*	262,201	258,871	244,382	221,497	217,119
Total	326,252	272,578	254,827	259,453	265,763

* differs from audited statements due to ASO business

Policyholder benefit expense, which can be separated into increases in actuarial liabilities and policyholder payments, was higher than expected in 1999. Actuarial liabilities were increased in conjunction with the increase in the asset accumulation funds under management. Actuarial liabilities required to support the long-term disability in force claims also increased as a result of the growth in the group insurance line of business. Changes in valuation assumptions and the undertaking of new reinsurance arrangements for individual insurance products led to lower than normal increases in the level of reserves required to meet the future obligations of the individual insurance lines of business.

Operating Expense

thousands	1999 $	1998 $	1997 $	1996 $	1995 $
Marketing	33,103	27,586	26,690	22,693	21,103
Salaries & benefits	22,460	19,774	17,113	15,484	14,873
Operating expenses	20,133	19,864	18,433	15,043	18,850
Reinsurance expense allowances	33,613	31,021	28,410	27,206	24,496
Total	109,309	98,245	90,646	80,426	79,322

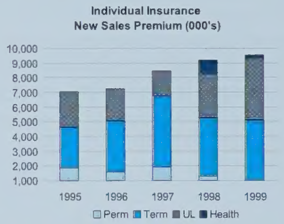
Efforts to limit operating expense increases have been successful even with the cost of the corporate advertising campaign, increased charitable giving and new risk appraisal and claims management initiatives. Marketing expense increases result from the high level of sales and include the costs associated with The Co-operators brand name advertising program. Salary and benefits expense has risen as staff are hired and trained to handle the increased volume of business. The reinsurance expense allowance category of operating expense represents the company's 50% share of operating expense incurred under the coinsurance agreement to provide insurance to credit union members. Deducted from the assumed reinsurance expense allowance is 50% of the operating expenses the company incurs in providing group insurance benefits to credit union employees. Growth in the credit union member insurance line of business has led to higher expenses. In addition, the company's joint venture partner has made significant investments in technology and recorded one-time expenses in association with restructuring their sales and administration offices. These initiatives are expected to have a positive impact on future expense levels.

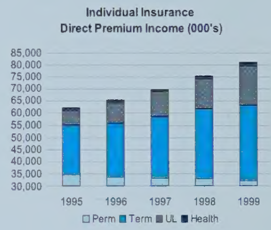
INDIVIDUAL INSURANCE OPERATIONS

The company offers a complete portfolio of individual life insurance products including permanent, term and universal life. The term insurance line was enhanced in late 1999 with the release of the Versatile™ Term product. Seven rate classes are offered under this 'preferred' product with premium rates that more closely reflect an individual's health and lifestyle. Two very successful direct response offers were made in 1999 to upgrade existing individual life policies by adding accidental death protection or purchase stand-alone accidental death insurance policies.

The individual insurance division's financial objectives are to:

- achieve steady growth in the individual life insurance market
- earn an appropriate rate of return while balancing competitive pressures
- reduce unit costs through a combination of decreasing controllable expenses and increasing the business in force





During 1999, the individual insurance division performed well against its financial objectives as follows:

- 13% growth in new annual premium sales of individual life products
- $30 million net income, pre-tax
- reduced policy maintenance cost

Individual life insurance direct premium revenue for 1999 was $80 million, a 7% increase over prior year. Mortality results and customer retention were in line with plan. Premium revenue of the universal life product line, which was updated in 1998, increased 29% over the prior year. Term premium revenue increased 8% while permanent insurance premium revenue declined 2.5%. The universal life product continues to be a very popular choice with our customers as sales of universal life increased 41% in 1999 over the 1998 level and accounted for 45% of new annual premium sold and 20% of individual life premium revenue for 1999.

To manage risk and enhance the profitability of the individual life and health insurance products, new reinsurance agreements under favourable terms were entered into in 1999 for universal life, the new Versatile™ Term product and the direct response accidental death benefit offerings.

A new approach to risk selection was implemented in 1999 with the national rollout of tele-underwriting. Tele-underwriting provides for the collection of confidential medical and lifestyle details by a head office underwriter through a telephone interview with the applicant for life insurance. Tele-underwriting improves the quality of information collected, reduces policy issue time and allows the agent to focus on client needs analysis and relationship development activities.

Significant advances were made in 1999 in the development of new advanced marketing training packages to support the agents' ability to serve all of our customers' needs. In addition, agent knowledge was validated through an accreditation examination process when new individual life and asset accumulation products were introduced.

The individual insurance products are distributed primarily through The Co-operators Canada-wide network of multi-line agents. Development of the complementary direct response distribution system has been a success. The 1999 offer to add accidental death insurance to existing Co-operators Life policies was very well received with 12,000 coverages issued at a new annual premium exceeding $500,000. Successful results were also experienced when the offer was made to issue accidental death insurance policies to customers of HB Group Insurance Management Ltd. and Co-operators General Insurance Company with 4,000 policies issued at a new annual premium of $270,000.

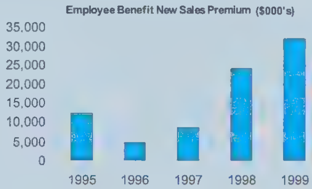
GROUP INSURANCE OPERATIONS

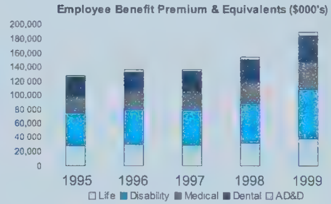
The company offers a wide range of group insurance products including life; accidental death; disease and dismemberment insurance; short and long-term disability insurance; health and drug coverage not provided by provincial medical plans; dental care; vision care; and employee assistance plans.

Group insurance products and services are provided to employee groups and associations under fully insured, Administrative Services Only (ASO) and a combination of insured and ASO contracts. Policies are renewable and are subject to regular pricing adjustments.

The financial objectives of group insurance operations are to:

- price products to provide fair value to the customer and acceptable returns to the company
- reduce the ratio of controllable expense to premium revenue
- increase market share by direct sales effort and forming strategic alliances





During 1999, group insurance operations experienced:

- 33% growth in new sales of group insurance products
- 23% increase in direct premium and premium equivalents administered under Administrative Services Only agreements
- maintenance of the expense as a percentage of premium ratio, despite significantly increased staff expense and new investments in technology

Group insurance net premium revenue for 1999 was $188 million, a 30% increase over 1998. Net premium revenue includes the $8 million premium assumed from another federally licensed insurer under an agreement to transfer a group long-term disability client to Co-operators Life. Customer retention, as measured by a leading industry survey, continues to be the highest of our peer group. The 33% growth in sales is attributed to our award-winning marketing strategies and widespread demand for our innovative products. In addition, the company profile within the industry has been heightened as more brokers and consultants become familiar with the company's proactive approach to disability claims management. Unfortunately, this level of growth, in combination with adverse morbidity experience, led to 1999 pre-tax losses for the disability, extended health and dental insurance products. Rate increases introduced in mid-1999 and a commitment to strategic growth are expected to return the group insurance line of business to profitability in 2000.

Product development in 1999 included a Health Spending Account, which will be introduced on a pilot basis in early 2000. A new small group (under 50 employees) policy was also prepared for introduction in 2000. This policy is unique to the industry and offers many new features including easy to read language, cost containment provisions and enhanced product features such as progressive disability insurance, laser eye surgery and pre-natal benefits.

Technological improvements were made throughout 1999 to accommodate new product design and improve the efficiency of administration. A new self-reporting system was also made available to our clients to improve their ability to self-administer their employee benefits programs.

ASSET ACCUMULATION

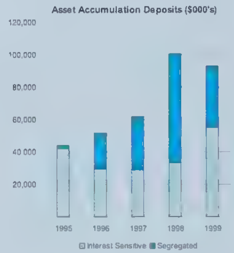
The company offers individuals and groups a wide range of long-term savings and investment products designed to accommodate pension, tax planning and deferred compensation requirements. In 1999, general fund premium (includes both considerations for payout annuity products and purchase of guaranteed interest investment products) surpassed $55 million -- a 65% increase over 1998. However, consistent with experience throughout the mutual and segregated fund industry, customer demand for equity-based products declined dramatically in 1999. Contributions to the pooled funds fell from the record level set in 1998 of $67 million to $38 million for 1999.

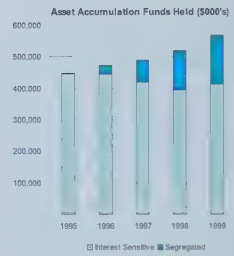
Individual annuity plans are offered on both an immediate (payout) and a deferred basis with segregated fund investment options available to the deferred annuity policyowners. Six fund options, all managed by Co-operators Investment Counselling Limited, are available to customers under both individual and group annuity contracts. The individual deferred annuity product was updated and released in January, 1999, as the Versatile Asset II®. Noteworthy enhancements include the ability to reset the maturity guarantee which provides principal protection for investments in the segregated funds and the option to invest in both the segregated and interest sensitive funds on a non-registered basis.

Most of the company's group annuity contracts are sold to corporate pension plans registered under the Income Tax Act (Canada). Funds are placed, at the purchaser's option, in either the general funds of the company under which the principal and interest rates are guaranteed, or in one or more of the six pooled segregated funds. In 1999 successful bids on contracts to provide monthly annuity payments to long-service fishers and fish plant workers in the Atlantic provinces under a joint federal/provincial initiative resulted in $13 million of single premium credits to the group annuity product line.

The asset accumulation division's financial objectives are to:

- increase the funds managed to provide retirement/investment benefits to Canadians
- reduce controllable expense as a percentage of funds held
- earn an appropriate rate of return while balancing competitive pressures





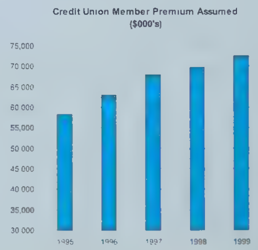
During 1999, the asset accumulation line of business performed well against its financial objectives as follows:

- 65% growth in general fund premium revenue
- 9% growth in funds under management
- $2 million net income, pre-tax
- implemented a new pension administration system which incorporates several enhanced customer service features including flexible reporting and on-line query capabilities.

CREDIT UNION MEMBER PRODUCT LINE

The company participates in a joint venture -- Credit Union Insurance Services (CUIS) -- with CUMIS Life Insurance Company, another federally licensed insurance company. Under the CUIS marketing program, members of the Canadian co-operative financial system are provided life, disability and loss of employment insurance products. Members purchase these products to reduce or eliminate outstanding balances on personal loans, residential mortgages, business and agricultural loans and personal lines of credit in the event of loss of life or loss of livelihood.

The market for the CUIS program consists of the nearly 4.5 million members of Canadian financial co-operatives, including credit unions, caisses populaires, provincial credit union centrals and francophone federations, the Credit Union Central of Canada and Co-operative Trust Company of Canada.



Co-operators Life and CUMIS Life share the financial results and costs of the CUIS program on a coinsurance basis. Premium and policy benefit expenses are reflected on the appropriate lines of the statement of operations. Controllable expenses are shown in total on the reinsurance allowances line of the statement of operations.

Credit union member premium assumed increased by 4% to $73 million in 1999 and represented 17% of total premium revenue for the company. Pre-tax profits from this line of business increased 5% over 1998 as morbidity experience continues its positive trend.

Management Discussion & Analysis

INVESTMENT OPERATIONS

The concerns about global economic weakness in 1999 and its potential to produce a slowdown in North America proved unfounded. Instead, there was resurgence in economic expansion during the year, a recovery in commodity prices, and strong employment growth and consumer spending. This in turn caused fears of higher inflation and produced a tightened monetary policy. Indirectly, the strength of the stock market had the effect of hurting bond prices throughout the year as longer term interest rates rose by more than 1%. Real economic growth in Canada during 1999 increased by more than 3% and consumer prices rose 2.6%.

The invested assets in the company's general account grew to $1.3 billion, up from $1.2 billion in 1998. The strong growth in general account assets was somewhat offset by slower growth in segregated funds. During 1999, segregated fund assets grew by $35 million to $397 million, compared to an increase of $59 million in 1998.

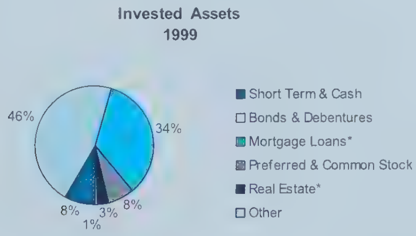
Despite the increase in invested assets, net investment income in 1999 was $1.4 million lower than plan. While interest and dividend income was more than $3 million above plan, this was offset by an increase in general loan provisions of $2 million, and a further $1.6 million as the company reduced the carrying value of its own use real estate. In combination with the above, a substantial rollover of higher yielding fixed income investments during the year had the effect of reducing net investment income in 1999 to $94 million, down from $98 million in 1998.

The company's investment portfolio is managed by Co-operators Investment Counselling Limited, an affiliated company. It has been in business since 1985 and currently has over $7 billion in assets under management.

The company's investment objective is to manage its assets prudently, providing steady income flows to support the cash flow and liquidity needs of its insurance and investment products. Investment strategy is reviewed on an ongoing basis and assets are actively managed to match and reflect the characteristics of the underlying policy liabilities. The company has established comprehensive policies which set asset mix, specify investment authorities, control credit quality, restrict foreign currency exposure, regulate portfolio diversification and concentration, limit derivatives risk and establish asset/liability matching requirements by line of business. These policies are submitted to the Board of Directors of the company annually for approval.

Asset Distribution

The investment portfolio is well diversified by asset category, industry sector, regional location and borrower.



Invested Assets	1999			
thousands	$	%	$	
Short Term & Cash	109,147	8	88.183	8
Bonds & Debentures	596,560	46	583 421	[illegible]
Mortgage Loans*	446,783	34	399 631	[illegible]
Preferred & Common Stock	99,131	8	87.543	[illegible]
Real Estate*	32,655	3	35.267	[illegible]
Other	14,271	1	15,655	1
TOTAL	1,298,547	100	1.209 700	[illegible]

* before encumbrances and general provisions for impairment

The annual changes in the term of investments and in the major categories of assets reflect changes in the liability profile. The proportion of assets held in short term investments remained high in 1999, partly in response to Y2K concerns and partly because of the high level of outstanding mortgage commitments. As in 1998, the proportion of funds invested in bonds fell as mortgage investments were increased to take advantage of higher yield spreads.

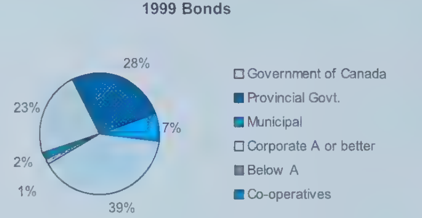
Asset Quality

Maintenance of a high quality investment portfolio reduces the company's exposure to loss in recessionary periods and provides for consistent long-term results. Investment policy requirements for high quality investments are stringent.

Short-term investment holdings are limited to those rated R-1 by the Dominion Bond Rating Service.

The quality of bond holdings is high, with 90.4% of the portfolio at year end rated as A or higher by the Dominion Bond Rating Service. The entire bond portfolio was assessed as investment grade in 1999, with no holdings rated lower than BBB.

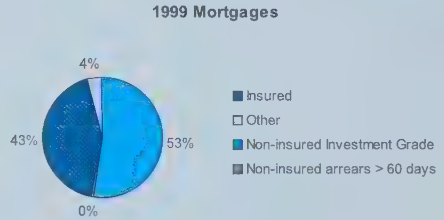
Bonds	1999		1998	
thousands	$	%	$	%
Government of Canada	137,541	23	123,503	21
Provincial Govt.	164,513	28	164,248	28
Municipal	44,043	7	66,230	11
Corporate A or better	230,265	39	214,269	37
Below A	9,192	1	6,139	1
Co-operatives	11,006	2	9,032	2
TOTAL	596,560	100	583 421	100



In 1999 the company continued to place greater emphasis on mortgages as a proportion of assets. This resulted in mortgage investments increasing by $47 million to 34% of invested assets, compared with 33% in 1998. The portfolio is diversified by location, property type, and industrial class, with residential loans making up 55% of total mortgages. Government insured loans represent 43% of the total mortgage portfolio, down from 44% in 1998. The mortgage portfolio is rated using a comprehensive internal risk-rating system. Non-insured mortgages rated M2-high and better are considered "investment grade". Mortgages in arrears continued to decline in 1999.

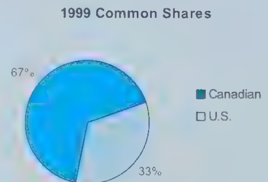
Mortgages	1999		1998	
thousands	$	%	$	%
Insured	193,656	43	177,306	44
Conventional				
M1 - high	26,725	6	25,346	6
- mid	100,158	22	97,443	24
- low	105,140	24	68,578	17
M2 - high	12,071	3	15,506	4
- mid	1,559	0	5,832	2
- low	-	-	-	-
Restructures	3,308	1	3,857	1
Arrears > 60 days	1,921	0	2,689	1
Unrated	2,245	1	3,074	1
TOTAL	446,783	100	[illegible]	[illegible]

(before provisions for impairment)



The company's common stock holdings are essentially composed of shares of large, well-capitalized Canadian and U.S. companies.

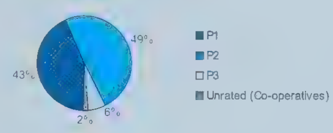
Common Shares	1999		1998	
thousands	$	%	$	%
Canadian	40,854	67	33,694	63
U.S.	20,447	33	19,560	37
TOTAL	61,301	100	[illegible]	[illegible]



Management Discussion & Analysis

Preferred share holdings were invested primarily in shares of large Canadian public utility companies and the major chartered banks. The portfolio was rated by the Dominion Bond Rating Service as follows:

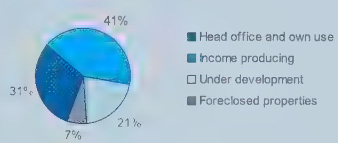
1999 Preferred Shares



Preferred Shares	1999		1998	
thousands	$	%	$	
DBRS rating				
P1	16,528	43	15,266	44
P2	18,488	49	18,347	54
P3	2,139	6	67	0
Unrated (Co-operatives)	675	2	[illegible]	[illegible]
TOTAL	37,830	100	[illegible]	[illegible]

The company's real estate investments are summarized below:

1999 Real Estate



Real Estate	1999		1998	
thousands	$	%	$	%
Head office and own use	10,000	31	11,600	33
Income producing	13,571	41	13,848	39
Under development	6,784	21	7,019	20
Foreclosed properties	2,300	7	[illegible]	[illegible]
TOTAL	32,655	100	[illegible]	[illegible]

(before encumbrances and general provisions for impairment)

Provision for Asset Defaults

Losses arising from disposal of a foreclosed property, write-downs, and provisions under Section 3025 for restructured loans totalled $1.3 million for 1999. In view of the substantial increase in conventional mortgages during the year, the general provision for future mortgage loan losses was increased by $2 million in 1999 to bring it to a total of $5.5 million. This increase in the general provision will be reviewed in 2000 in light of real estate market conditions.

The most significant investment risk to which the company is exposed is the risk of loss due to declines in credit quality, leading to defaults in the payment of principal or interest on mortgages and loans. Consequently, the company reviews its investment portfolio monthly in a published Watch List to identify investments where values may be impaired. Every quarter, the Watch List is scrutinized by the Investment Forum (a committee comprised of the Chief Executive Officer and Chief Financial Officer of The Co-operators, the Chief Operating Officer of Co-operators Life and senior investment and finance managers) in order that senior management is apprised of any risk of loss from invested assets. The Watch List is also reviewed quarterly by both the Audit and Investment Policy Committees of the Board.

Looking Ahead

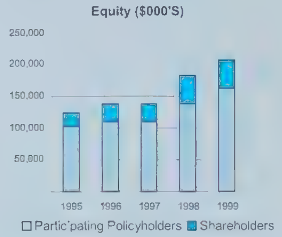
The outlook for the economy in 2000 remains positive, with expectations of continued growth, albeit at a slower pace than in 1999. As the year begins, the pace of the U.S. economy remains excessive and the work of the Federal Reserve appears unfinished. Further interest rate increases in the U.S. are anticipated in the first half of the year. With the U.S. election in November, the tightening in monetary policy should be complete by mid-year, and monetary policy should shift to neutral in the second half of 2000. The Bank of Canada will likely match any rate increases by the Federal Reserve. This would likely mean that the bond markets will remain under pressure while rate increases are expected, but in the absence of any serious threat of inflation, bond prices will recover in the latter part of the year.

We expect both the Canadian economy and the Canadian dollar will continue to benefit from a favourable outlook for commodity prices amidst firming global growth prospects. We anticipate positive returns from both stocks and fixed-income investments for the year as a whole. With economic growth at a more modest pace, yield spreads should narrow between bonds and mortgages. Consequently, in 2000, the company anticipates increasing bond investments relative to mortgages.

CAPITAL RESOURCES

The financial strength of the company continues to improve as 1999 marked the fourth consecutive year of record profits for Co-operators Life. The total equity of the company has increased by 67%, from $124 million at December 31, 1995 to $208 million at December 31, 1999.

The following table shows the breakdown of the company's equity for the last five years.



Equity

thousands	1999 $	1998 $	1997 $	1996 $	1995 $
Participating Policyholders	163,167	139,237	124,463	110,271	102,871
Shareholders	44,427	43,936	34,290	28,695	21,551
Total	207 594	[illegible]	58 753	138.966	124.422

The measurement of the financial strength of a life insurer is very complex due to the varying nature of products and risk factors between companies. The Office of the Superintendent of Financial Institutions, Canada utilizes the Minimum Continuing Capital & Surplus Requirements (MCCSR) formula to measure the risks the company has assumed relative to the capital it has in place to support those risks. The company's ratio has been steadily increasing since 1993 to its current level of 212% of required capital. The company closely manages its capital position to ensure a level that is well above the Superintendent's minimum of 120%.

RISK MANAGEMENT

The company has established comprehensive risk management policies covering all aspects of operations. The Board of Directors has approved these policies and is responsible for reviewing them annually and ensuring they are adhered to.

The risk management policies of the company are inter-related and management of any risk cannot be considered in isolation without regard to other policies drafted to manage other business risks. In particular, management of the company's capital is conducted in conjunction with the capital management, credit risk, foreign exchange and liquidity risk management policies.

Interest Rate Risk

Interest rate risk is the potential for financial loss arising from changes in interest rates and occurs when a company's asset cash flows do not coincide with the cash flows arising from the liabilities. Many of the company's liabilities consist of contractual or otherwise predictable payments to policyholders. The liabilities of the company are segmented based on the nature of the product and the relative exposure to interest rate risk. The assets of the company are similarly divided, with all investments allocated to an appropriate segment. For each major product segment, liabilities with predictable cash flows will be matched by assets with predictable cash flows, within the constraints established as applicable to that segment. Each segment has a matching policy, requiring the level of mismatch to be kept within prescribed limits. This matching policy is a critical part of the company's investment policy. The matching of assets to liabilities is monitored regularly. In the applicable segments this is done through the use of duration matching, cash flow matching and interest rate sensitivity analysis. The limits on mismatch are established by investment policies approved by the Board of Directors of the company.

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a debtor to honour its obligations to the company. Investment policies aimed at maintaining a fixed income portfolio of high overall quality have been established by the company. These include standards relating to quality for each category of assets and setting limits on the concentration of credit risk by borrower and geographic region. Various limits have also been set, on percentages of bonds, mortgages and other loans that can be held by type of property or by industry group. The company also has an overall corporate concentration limit on its exposure to any single group of related corporate entities, requiring that this be less than 25% of company surplus.

Foreign Exchange Risk

Foreign exchange risk is the risk of loss due to unfavourable movements in foreign exchange rates relative to the Canadian dollar. It arises from currency mismatches between assets and liabilities. The company carries on business only in Canada and is not a multinational company. Consequently, any foreign exchange exposures will be for sound business reasons and with due regard to other risks (e.g. liquidity, credit risk, interest rate risk and investment risk) and the company's ability to absorb potential losses. Foreign exchange risk is not permitted in the matching of assets and liabilities. Foreign currency investments in the operating segments are permitted only as an offset to corresponding foreign currency liabilities. However, the company's surplus account is permitted to hold foreign currency assets. This normally involves holding a portion of the equity investments in foreign common stocks for diversification purposes, to lessen risk and enhance return by having exposure to industries, companies and technology not available in the Canadian stock market. This exposure is limited to a maximum of 50% of surplus assets by book value.

Derivatives Management Risk

Derivatives are financial contracts whose values are derived from the value of an underlying asset or index such as interest rates, exchange rates, equities and insurance contracts. Currently the company does not have any derivative investments. The Board of Directors has approved a comprehensive derivatives policy that permits the company to be a limited end-user of derivative instruments. The derivatives policy specifically prohibits derivative use for speculative purposes. The primary use of derivatives will be to hedge market risk in the investment portfolios. Derivatives will not be used to create any exposures not otherwise allowed in investment policy. They are strictly governed by detailed limits involving independent review, credit risk limits and operational controls.

Liquidity Risk

Liquidity risk refers to the ability of the company to raise funds to meet financial commitments as they fall due. Liquidity risk will vary by line of business based on contractual rights to make cash withdrawals and other distinct product features. It is unlikely that all demand liabilities will be withdrawn at the same time.

The desired liquidity level of the company is determined by taking into account the balance between the cost of liquidity on one hand and competitiveness in terms of price and corporate solidity on the other hand. The company's asset liability management and cash management processes are prudently managed to ensure that cash inflows have an appropriate relationship to the size of approaching cash outflows.

The company maintains a high level of liquid assets to ensure that cash demands can be readily met. The liquid assets of the company have generally exceeded the liquidity needs of the liabilities by a wide margin. If additional liquidity is required, it is also available through unused bank lines of credit.

The primary methodology for managing liquidity on a strategic basis is the calculation of liquidity ratios over different time horizons and under several scenarios. This analysis is used to identify both the overall level of risk and the types of events that increase liquidity risk.

Liquidity risk is measured and monitored at least quarterly. The liquidity ratios that are produced as a result of the forecasts are summarized and analyzed for each time horizon and scenario. Compliance with the liquidity risk policy is reported quarterly to senior management and at least annually to the Board of Directors of the company.

Management Discussion & Analysis

Underwriting

The Co-operators life and health underwriting objectives are premised on the underlying notion that all proposed insureds will be underwritten equitably and fairly and in accordance with the terms of the product(s) applied for. The goals are to:

- ensure that underwriting activity is consistent for all clients
- provide competitive and fair prices by maintaining correct risk classification
- price according to the risks represented by the client
- maintain a presence for the long term in our markets.

For individual insurance, comprehensive and detailed risk selection information is collected. The information required addresses all factors impacting each proposed insured's mortality or morbidity including: age; sex; amount applied for; smoker status; family history; medical history; current health; occupation; aviation; avocation; driving record; travel; foreign residence; citizenship; finances and lifestyle.

The underwriting guidelines clearly set out the risk selection information required for each mortality factor or combination of factors. The detailed information provided by the proposed insured is supplemented with information from third parties including: the proposed insured's personal physician; clinics; hospitals; sanitariums; laboratories; current information from a paramedical or medical examination; motor vehicle reports; as well as personal, financial and lifestyle information from an inspection report service.

Underwriting of all group products is related to the pricing and design of the product. Comprehensive underwriting manuals are maintained which detail the practices and procedures to be followed in the determination of the product design and price for each group to be insured. The decision to accept the risk is determined before quoting the product and is based upon an initial assessment of the group's characteristics. Careful risk screening is critical to avoid the possibility of allowing the company to be selected against in a competitive market. The group underwriting manual contains a listing (updated regularly) of insurable groups, classified into a number of risk categories. High-risk groups are separately identified and must meet certain criteria before a quote can be offered.

Claims

The Co-operators life and health claims management objective is to adjudicate claims fairly and in accordance with the specific contractual terms. Claims will be adjudicated impartially and professionally on a timely basis. The company ensures that individuals employed in the claims areas are well qualified to fill these important positions.

In order to ensure complete and consistent claims adjudication, comprehensive manuals have been compiled which set out: the types of evidence required to process a claim, the forms that must be completed or collected and the procedures which must be carried out before a claim can be paid. Claims adjudication is not complete until all requirements set out in the Claims Procedures Manuals have been met. These manuals are promptly revised to accommodate new product introductions and claims procedure enhancements.

Reinsurance

Reinsurance for individual life is utilized to ensure diversification is accomplished. The company has a per life retention limit, over which any insurance is ceded to a particular reinsurer. For the purposes of [illegible] reinsurance, the company utilizes several reinsurers. The company deals only with the largest reinsurers which have a rating of A+ or better from an acknowledged rating agency such as A.M. Best, Standard & Poor's, Moody's or Duff & Phelps. The reinsurer used is dependent upon the product.

The company has several reinsurance programs in place to allow it to share the underwriting risks associated with providing group coverage. Different reinsurance levels apply to each type of coverage available and are reassessed periodically to ensure they remain economically feasible for the company and its reinsurers. The reinsurer automatically accepts business underwritten by the company, provided the reinsurance falls within the limits set out in the treaty, and the policy is written in accordance with the product and underwriting guidelines adopted and approved by the company and the reinsurer. Coverages that deviate from standard underwriting guidelines are assessed on an individual basis.

Actuarial Liabilities

In the computation of actuarial liabilities, "best estimate" assumptions covering the lifetime of the policies have been made for many variables including mortality, morbidity, investment returns, rates of policy termination, operating expenses, inflation, policyholder dividends and taxes. Assumptions are reviewed annually based on studies of the major experience factors. The change in actuarial liabilities resulting from assumption revisions is recognized immediately in income.

To recognize the uncertainty in establishing the best estimate assumptions, to allow for possible deterioration in experience and to provide greater comfort that actuarial liabilities are adequate to pay future benefits, a margin is included in each assumption. The Canadian Institute of Actuaries prescribes a range of allowable margins and, in most cases, the company maintains margins at the conservative end of the allowable range.

Note 7 of the financial statements provides a more detailed explanation of the actuarial liabilities and a complete description of the nature of the liabilities, the most recent assumption changes and their impact on earnings.

Year 2000

In preparation for the new millenium, Co-operators Life began replacing systems with state-of-the-art software, starting in 1995. Our goal of having all systems compliant well in advance of January 1, 2000 was met. Additional functionality and enhanced features were also incorporated in the system upgrade projects. As a result, the company is well positioned for future growth, new product development and improved customer service.

All costs associated with Year 2000 preparation have been expensed.

OUTLOOK

Co-operators Life has been very successful in gaining market share in recent years. The profitability of all lines of business (with the exception of the group health insurance products) has also been very encouraging. We expect that the demutualizations within the Canadian insurance industry will lead to more rational product pricing for group insurance as the focus changes from gaining market share to achieving an adequate return for shareholders. For Co-operators Life, rate increases introduced in 1999 and a commitment to strategic growth are expected to return the group insurance line of business to profitability in 2000. The planned reduction in new sales of group insurance products will also allow staff to focus on achieving service levels.

As the population ages, the goal of most Canadians will continue to migrate from protection products to growing and preserving assets. The company is updating the options available for long-term and retirement savings by introducing four new segregated funds in early 2000. The expanded portfolio of segregated funds, which are offered on both a registered and non-registered basis, provide alternatives to suit the various risk profiles of our customers.

We expect the market for individual insurance products to remain strong as the children of the baby-boomers enter the family protection needs phase of their life cycle. The company's updated individual insurance portfolio which incorporates preferred underwriting and increased support of the agency force is expected to lead to continued growth in individual insurance sales as we enter the new millenium.

Due to the strategic decision to slow down the acquisition of new group insurance business and the expectation that no large group annuity contracts will be available to quote on in 2000, premium revenue growth is expected to flatten. Earnings from investments will increase due to growth in the assets held. Policyholder benefit expense will rise in conjunction with the increased insurance in force and operating expenses will increase due to new initiatives in the risk appraisal and claims management areas.

Readers of this section, Management Discussion and Analysis, should review the entire annual report for additional commentary and information.

Financial Reporting Responsibilities

MANAGEMENT is responsible for the preparation of the accompanying financial statements and the accuracy, integrity and objectivity of the information contained in the financial statements. These statements have been prepared in accordance with generally accepted accounting principles and policies prescribed or permitted by The Superintendent of Financial Institutions Canada. The financial statements necessarily include some amounts that are based on management's best estimates and the opinion of the appointed actuary.

To assist management in the discharge of these responsibilities, the company maintains a system of internal control designed to provide reasonable assurance that its assets are safeguarded; that only valid and authorized transactions are executed; and that accurate, timely and comprehensive financial information is prepared.

THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS, consisting entirely of non-executive directors, is responsible for reviewing the accounting principles and practices employed by the company and reviewing the company's annual financial statements prior to their submission to the Board of Directors for final approval. The Audit Committee meets periodically with the internal and external auditors, the appointed actuary and management to review their work and to ensure that respective responsibilities are properly discharged. The Audit Committee also reviews and monitors weaknesses in the company's system of internal control as reported by the auditors.

THE APPOINTED ACTUARY is appointed by the Board of Directors pursuant to the Insurance Companies Act. Among the appointed actuary's responsibilities is the requirement to carry out an annual valuation of the company's policy liabilities in accordance with accepted actuarial practice and regulatory requirements for the purpose of reporting to shareholders, policyholders and the Superintendent of Financial Institutions Canada. In performing this valuation, the actuary makes assumptions as to future rates of interest, asset default, mortality, morbidity, policy termination, expenses and other contingencies, taking into account the circumstances of the company and the policies in force. The actuary makes use of information provided by management and uses the work of the auditors in verifying the underlying data used in the valuation.

THE COMPANY'S EXTERNAL AUDITORS, Deloitte & Touche LLP, Chartered Accountants, conduct an independent examination of the financial statements and meet separately with both management and the Audit Committee to discuss the results of their examination. The auditor's report to the shareholders and policyholders appears on page 19.

Ken Berglund
Chief Operating Officer

Kevin Daniel
Vice-President, Finance

Bryan Sigurdson
Vice-President and Chief Actuary

Auditors' Report

To the Shareholders and Policyholders of
Co-operators Life Insurance Company:

We have audited the balance sheet of Co-operators Life Insurance Company and the separate balance sheet of its segregated funds as at December 31, 1999 and the statements of operations, shareholders' capital and retained earnings, participating account, cash flow and changes in segregated funds assets for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company and its segregated funds as at December 31, 1999 and the results of its operations, its cash flows and the changes in the assets of its segregated funds for the year then ended in accordance with generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

Deloitte & Touche LLP.

Chartered Accountants
Regina, Saskatchewan
February 16, 2000

To the Shareholders and Policyholders of
Co-operators Life Insurance Company:

Report of the Appointed Actuary

I have valued the policy liabilities of the company for its balance sheet at December 31, 1999 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the result of the valuation.

Regina, Saskatchewan
February 16, 2000

Bryan G. Sigurdson
Fellow, Canadian Institute of Actuaries

General Fund Balance Sheet

DECEMBER 31, 1999 (thousands)

ASSETS	1999	[illegible]
Cash and short term investments	$ 109,147	[illegible]
Bonds (Note 5)	596,560	[illegible]
Stocks (Note 5)	99,131	[illegible]
Mortgages (Note 5)	441,094	[illegible]
Real estate (Note 5)	26,341	28.923
Policy loans	32,689	30.089
Premiums due	16,993	13.413
Amounts on deposit with reinsurers	77,677	75.224
Investment income due and accrued	14,271	15.655
Future income taxes (Note 13)	-	3.900
Other assets	12,385	8.232
	$ 1,426,288	$ 1.330.647

LIABILITIES	1999	1998
Actuarial liabilities (Note 7)	$ 992,690	$ 928.639
Policyholders' funds on deposit	92,032	87,912
Claims in course of settlement	6,320	5,199
Provision for unreported claims	16,292	13,851
Provision for policyholder dividends & experience rating refunds	13,065	16,238
Reinsurers' funds on deposit	16,994	16,007
Policy liabilities	1,137,393	1,067,846
Taxes payable	4,716	1,497
Accounts payable and accrued charges	10,622	14,297
Deferred gains (Note 10)	59,263	58,834
Subordinated debt (Note 11)	5,000	5,000
Future income taxes (Note 13)	1,700	-
Total liabilities	1,218,694	[illegible]
SHAREHOLDERS' AND POLICYHOLDERS' EQUITY		
Participating policyholder account	163,167	139,237
Shareholders' equity		
Share capital (Note 12)	8,000	[illegible]
Retained earnings	36,427	[illegible]
	44,427	[illegible]
	207,594	[illegible]
	$ 1,426,288	[illegible]

Approved by the Board of Directors:

__________, Director

__________, Director

__________, Chief Executive Officer

Statement of Operations

DECEMBER 31, 1999 (thousands)

	1999	[illegible]
REVENUE		
Premiums, net of reinsurance (Note 8)	$ 367,337	$ 298,002
Investment, net of expense	93,940	[illegible]
Fees and other income	5,064	[illegible]
	466,341	[illegible]
EXPENSES		
Increase in actuarial liabilities	64,051	[illegible]
Death and disability claims	149,096	127,059
Cash value of surrendered policies	56,613	[illegible]
Policyholder dividends & experience rating refunds	14,614	[illegible]
Annuity payments	15,455	[illegible]
Interest	4,937	[illegible]
Premium and other taxes	6,730	[illegible]
Marketing	33,103	[illegible]
General	42,593	[illegible]
Reinsurance allowances	33,613	[illegible]
	420,805	[illegible]
OPERATING INCOME BEFORE INCOME TAXES	45,536	[illegible]
INCOME TAXES (Note 13)	20,600	[illegible]
NET OPERATING INCOME	24,936	[illegible]
UNDISTRIBUTED PARTICIPATING POLICYHOLDER INCOME (Note 14)	22,794	[illegible]
NET INCOME TO SHAREHOLDERS (Note 15)	$ 2,142	$ [illegible]

Statement of Shareholders' Capital and Retained Earnings

DECEMBER 31, 1999 (thousands)

	1999	1998
BALANCE, BEGINNING OF YEAR	$ 43,936	$ 34,290
Operating income	2,142	10,748
Appropriation (Note 14)	(1,136)	(569)
Dividends to shareholders	(515)	(533)
BALANCE, END OF YEAR	$ 44,427	$ [illegible]

Statement of Participating Account

DECEMBER 31, 1999 (thousands)

	1999	1998
BALANCE, BEGINNING OF YEAR	$ 139,237	$ 124,463
Operating income	22,794	14,205
Appropriation (Note 14)	1,136	569
BALANCE, END OF YEAR	$ 163,167	$ 139,237

Statement of Cash Flow

DECEMBER 31, 1999 (thousands)

		1999
OPERATING ACTIVITIES		
Net operating income	$	24,936
Items not requiring the use of cash		
Increase in actuarial liability		64,051
Provision for policyholder dividends		(3,173)
Investment write-downs and provisions		4,274
Investment amortizations		(10,545)
Future income taxes		5,600
Other		(589)
		84,554
INVESTING ACTIVITIES (Note 17)		
Bonds		(3,332)
Stocks		(8,885)
Mortgages		(48,437)
Policy loans		(2,601)
Real estate		180
		(63,075)
FINANCING ACTIVITIES		
Dividends paid to shareholders		(515)
CHANGE IN CASH		20,964
CASH, BEGINNING OF YEAR		88,183
CASH, END OF YEAR (Note 17)	$	109,147

Segregated Funds Balance Sheet

DECEMBER 31, 1999 (thousands)

	1999	1998
ASSETS		
Cash	$ 31,061	$ 36,172
Bonds	173,446	157,079
Stocks	189,802	166,431
Investment income due and accrued	2,387	2,076
	$ 396,696	$ 361,758
LIABILITIES		
Taxes, licenses and fees due and accrued	$ 147	$ 144
Funds held for the benefit of policyholders	396,549	361,614
	$ 396,696	$ 361,758

Statement of Changes in Segregated Funds Assets

DECEMBER 31, 1999 (thousands)

	1999	1998
SEGREGATED FUND ASSETS, BEGINNING OF YEAR	$ 361,758	$ 302,587
Additions to segregated funds:		
Amounts received from unitholders	48,885	83,956
Interest	12,121	10,232
Dividends	2,010	1,798
Other income	15	151
Net realized gains	1,256	19,377
Market value appreciation (depreciation)	10,799	(26,415)
	75,086	89,099
Deductions from segregated funds:		
Amounts withdrawn by unitholders	36,550	27,151
Operating expenses	3,598	2,777
	40,148	[illegible]
SEGREGATED FUND ASSETS, END OF YEAR	$ 396,696	$ 361,758

Notes to the Financial Statements

December 31, 1999 (thousands)

1. Nature of Business

The company is licensed to write life, annuity and health insurance in all provinces and territories in Canada. The company is subject to the Insurance Companies Act and is regulated by the Office of the Superintendent of Financial Institutions Canada (OSFI). Under regulations and guidelines prescribed by OSFI, the company is required to maintain a prescribed level of capital, which is dependent on the type and amount of insurance policies in force and the nature of the company's assets. The capital position of the company is well in excess of that prescribed by OSFI.

The company operates in both the individual and group markets and is also involved in a joint venture with another federally licensed Canadian life insurance company to sell creditor and employee benefit insurance products to and through credit unions in Canada. Products sold to individuals constitute 27% of premium income; products sold through the group markets constitute 54% of premium income, with the other 19% of premium income sold through the credit union market. The majority of the individual products are distributed through the exclusive sales force of related party Co-operators General Insurance Company, while group products are marketed primarily through independent brokers.

2. Significant Accounting Practices

These financial statements have been prepared in accordance with subsection 331(4) of the Insurance Companies Act which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada, the financial statements are to be prepared in accordance with generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of the Superintendent, are summarized below. These accounting policies conform, in all material respects, to generally accepted accounting principles.

Cash Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments of one year term or less.

Bonds Bonds are carried at amortized cost less amounts written off for other than temporary declines in value. Gains or losses on the sale of bonds are considered to be an adjustment of future portfolio yield and are deferred on the balance sheet and amortized to income on a straight-line basis over the remaining period to maturity, to a maximum of 20 years.

Stocks Investments in stocks are carried at moving average market value, where the carrying value is adjusted towards market value at 15% per annum less amounts written off for other than temporary declines in value. Net realized gains and losses on the disposal of stocks are deferred and amortized to income at 15% per annum on a declining balance basis.

Mortgages Mortgages are carried at amortized cost less principal repayments, general provisions, and amounts written off for other than temporary declines in value. Gains or losses on the sale of mortgages are considered to be an adjustment of future portfolio yield and are deferred on the balance sheet and amortized to income on a straight-line basis over the remaining period to maturity, to a maximum of 20 years.

Policy Loans Policy loans are carried at their unpaid balance, which is not in excess of the cash surrender value of the policies on which the respective loans were made.

Equipment Equipment is carried at cost less accumulated depreciation. Equipment is depreciated using straight-line depreciation for periods of 3 or 10 years.

Real Estate Real estate, not including head office and development property, is carried at moving average market value, where the carrying value is adjusted towards market value at 10% per annum less amounts written off for other than temporary declines in value. Market values on each property are established, on a rotating basis, every three years, by qualified appraisers.

Net realized gains and losses are amortized on a declining balance basis at 10% per year. Development properties are carried at cost. Head office properties are carried at cost less accumulated depreciation, calculated using the declining balance method at 5% per annum.

Actuarial Liabilities Actuarial liabilities for life and health insurance have been determined using the policy premium method. Annuity liabilities have been determined using the cash flow valuation method. Actuarial liabilities represent the amounts which, together with future premiums and investment income, will provide for future benefits, dividends and expenses on insurance and annuity contracts. The liabilities are calculated using estimates of future investment yield, asset default, mortality, morbidity, policy termination and expense, and include reasonable provisions for adverse deviations from those estimates. As the probability of deviation from estimates declines, these provisions for adverse deviations will be included in future income to the extent not required to cover adverse experience.

Segregated Funds Certain contracts allow policyholders to invest in segregated funds managed by the company for the benefit of policyholders. Income earned on these funds and any related capital gains or losses accrue to the benefit of the segregated fund policyholders. Investments held in segregated funds are carried at market value.

Income Taxes The company uses the liability method of accounting for income taxes. Current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

Revenue Recognition Premium revenues are recognized as they become due.

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December 31, 1999 (thousands)

Foreign Currency Translation The company translates all assets and liabilities into Canadian dollars at year-end rates and recognizes exchange gains and losses in the statement of operations.

3. Change in Accounting Policy

During the year, the company adopted the requirements of the new CICA Handbook section on Income Taxes. The major impact was the use of current income tax rates in the determination of the future income taxes. This change in accounting policy did not have a material impact in the calculation of the current year's income tax expense nor on the future income tax liability, and has therefore been accounted for prospectively.

4. Responsibilities of the Appointed Actuary and External Auditors

The Appointed Actuary is appointed by the Board of Directors pursuant to the Insurance Companies Act. Among the Appointed Actuary's responsibilities is the requirement to carry out an annual valuation of the company's policy liabilities in accordance with accepted actuarial practice and regulatory requirements for the purpose of reporting to shareholders, policyholders and the Superintendent of Financial Institutions Canada. In performing this valuation, the Appointed Actuary makes assumptions as to future rates of interest, asset default, mortality, policy termination, expenses and other contingencies, taking into account the circumstances of the company and the policies in force. The Appointed Actuary makes use of information provided by management and uses the work of the external auditors in verifying the underlying policy and investment data used in the valuation. Examination of the supporting data for accuracy and completeness is an important element of the valuation process. The Report of the Appointed Actuary outlines the scope of the valuation and contains the actuary's opinion regarding the appropriateness of the policy liabilities.

The Appointed Actuary is also required each year to analyze the financial condition of the company and prepare a report for the Board of Directors. The most recent analysis tests the capital adequacy of the company until December 31, 2003 under adverse economic and business conditions.

The external auditors have been appointed by the shareholders and policyholders pursuant to the Insurance Companies Act. Their responsibility is to conduct an examination of the financial statements in accordance with generally accepted auditing standards and report to the shareholders and policyholders regarding the fairness of the presentation of the company's financial statements in accordance with generally accepted accounting principles. These principles also conform with the requirements for filing with the Office of the Superintendent of Financial Institutions Canada. In performing their audit, the external auditors make use of the work of the Appointed Actuary with respect to the policy liabilities.

5. Investments

The company utilizes the prudent person approach to asset management as outlined by the Insurance Companies Act. An investment policy is in place and its application is monitored by the Investment Policy Committee of the Board of Directors. Policies limit investments in any entity or group of related entities to a maximum of 5% of the company's assets. Limitations are also placed on the quality of investments, particularly relating to investment grade bonds.

a) The carrying amounts and fair values of investments are as follows:

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and short term investments	$ 109,147	$ 109,147	$ 88,183	$ 88,183
Bonds				
- Federal	137,541	135,876	123,503	133,181
- Provincial	164,513	168,769	164,248	187,755
- Municipal	44,043	45,461	66,230	74,695
- Corporate A or better	230,265	236,838	214,269	247,600
Below A	9,192	9,159	6,139	6,360
- Co-operatives	11,006	11,040	9,032	9,408
	$ 596,560	$ 607,143	$ 583,421	$ 658,999
Stocks				
- Canadian	78,684	85,398	67,983	73,135
- U.S.	20,447	18,807	19,560	16,313
	$ 99,131	$ 104,205	$ 87,543	$ 89,448
Mortgages				
- Insured	193,656	192,579	177,306	186,650
- Residential	54,580	54,587	53,187	55,690
- Commercial	198,358	202,405	169,071	182,560
- General provision	(5,500)	-	(3,500)	-
	$ 441,094	$ 449,571	$ 396,064	$ 424,900
Real Estate				
- Office	21,802	19,316	23,696	23,936
- Retail	955	602	908	614
- Project development	6,784	6,485	7,019	6,263
- Foreclosed	2,300	2,300	2,800	2,800
- General provision	(5,500)	-	(5,500)	-
	$ 26,341	$ 28,703	$ 28,923	$ 33,613

December 31, 1999 (thousands)

b) Securities Lending

The company participates in a securities lending program managed by a federally regulated financial institution whereby the company lends securities it owns to other financial institutions to allow them to meet delivery commitments. The company receives securities of superior credit quality and value as collateral for securities loaned. At December 31, 1999, securities with an estimated fair value of $121,515 have been loaned, and securities with an estimated fair value of $128,586 received as collateral.

c) Impaired Assets and Provisions for Losses

The company establishes specific and general provisions for potential losses on any assets which are impaired. Taken into account are the current market value of the security, the value of any related collateral, the financial strength of the issuer or borrower, any loan covenants and any guarantees or insurance related to the investment. Changes to these provisions are reflected in the net investment income in the period when the impairment is recognized. These provisions are netted against the carrying value of a specific asset or against the asset category in the case of general provisions. The amounts identified below reflect the effect on income in the year identified.

	1999		1998	
	Specific	General	Specific	General
Mortgages				
Arrears > 60 days	$ 1,101	$ -	$ 988	$ -
Foreclosed	94	-	-	-
Section 3025 provision	122	-	102	-
Recoveries	(150)	-	(1,308)	-
General provision	-	2,000	-	1,500
Real estate	1,107	-	200	-
	$ 2,274	$ 2,000	$ (18)	$ 1,500

After deducting specific provisions, impaired loans totalled $2,783 (1998 - $5,145). The impaired loans insured by CMHC are $0 (1998 - $1,757). The total value of foreclosed properties net of specific provisions is $2,300 (1998 - $2,800). The company maintains a $5,500 general provision against the mortgage portfolio (1998 - $3,500), and a $5,500 general provision against the real estate portfolio (1998 - $5,500). In addition to these provisions, possible future impairments are provided for through the reduction of future investment yields assumed in the calculation of the actuarial liabilities. The provision for losses on not yet impaired assets is $16,457 (1998 - $17,775).

d) The amount of deferred gains included in investment income is the amortization of deferred net gains (losses) realized on disposal of investments and of unrealized gains (losses) on stocks and real estate.

	1999	1998
Bonds	$ 5,355	$ 4,873
Stocks	4,541	4,311
Mortgages	386	177
Real estate	(602)	(144)
	$ 9,680	$ 9,217

e) Geographic Concentration

	1999	1998
Mortgages		
Atlantic	$ 86,275	$ 64,042
Ontario	127,056	101,514
Prairies	111,610	120,909
British Columbia	94,737	86,860
Other	26,916	26,239
Less provision	(5,500)	(3,500)
	$ 441,094	$ 396,064
Real Estate		
Ontario	10,940	11,163
Prairies	11,033	13,203
British Columbia	9,868	10,057
Less provision	(5,500)	(5,500)
	$ 26,341	$ 28,923

f) Maturity Profile of Investments

	< 1 Year	1-3 Year	3-5 Year	> 5 Year	No Fixed	1999	1998
Bond and mortgages	$ 96,153	$ 166,092	$ 172,070	$ 603,339	$ -	$ 1,037,654	$ 979,485
Stocks	8,625	15,185	7,227	3,613	64,481	99,131	87,543
Cash and short term	109,147	-	-	-	-	109,147	88,183
Real estate	-	-	-	-	26,341	26,341	28,923
	$ 213,925	$ 181,277	$ 179,297	$ 606,952	$ 90,822	$ 1,272,273	$ 1,184,134
1999	17%	14%	14%	48%	7%	100%	
1998	17%	15%	13%	47%	8%		100%

December 31, 1999 (thousands)

6. Segmented Information

The principal business of the company is to provide life insurance, health insurance and asset accumulation products to individuals and employee and association groups. The company primarily manages its business on a marketing basis between group and individual products. Reporting to the company's board identifies the performance for each business unit.

The company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different specializations and marketing strategies.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

1999

	Individual Insurance	Asset Accumulation	Group Insurance	Co-Insurance Assumed	Surplus	Total
Premiums	$ 74,600	$ 55,198	$ 164,960	$ 72,579	$ -	$ 367,337
Investment income	33,259	32,843	13,706	5,553	8,579	93,940
Fees and other income	-	3,111	1,585	-	368	5,064
Expenses	77,628	89,020	184,833	68,223	1,101	420,805
Income tax expense	13,604	960	(2,058)	4,455	3,639	20,600
Net operating income	$ 16,627	$ 1,172	$ (2,524)	$ 5,454	$ 4,207	$ 24,936
Assets	$ 437,834	$ 425,785	$ 235,873	$ 77,678	$ 249,118	$ 1,426,288

1998

	Individual Insurance	Asset Accumulation	Group Insurance	Co-Insurance Assumed	Surplus	Total
[illegible]	$ 70,808	$ 33,483	$ 124,104	$ 69,607	$ -	$ 298,002
[illegible]	34,804	32,872	12,768	5,654	11,636	97,734
[illegible]	-	2,474	1,344	-	125	3,943
Expenses	93,529	66,761	130,248	65,886	1,202	357,626
Income tax expense	5,438	930	3,593	4,211	2,928	17,100
Net operating income	$ 6,645	$ 1,138	$ 4,375	$ 5,164	$ 7,631	$ 24,953
Assets	$ 424,490	$ 406,069	$ 198,972	$ 75,224	$ 225,892	$ 1,330,647

Notes to the Financial Statements

December 31, 1999 (thousands)

7. Actuarial Liabilities

a) Composition of Actuarial Liabilities

	1999	1998
Participating		
Individual life insurance	$ 326,187	$ 316,285
Individual annuities	128,501	137,179
Group life insurance	39,739	35,783
Group annuities	265,744	243,040
	$ 760,171	$ 732,287
Non-Participating		
Life insurance and annuities	35,690	27,255
Accident and sickness	196,829	169,097
	$ 232,519	$ 196,352
Total	$ 992,690	$ 928,639

b) Nature of Actuarial Liabilities

Actuarial liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on all insurance and annuity policies in force. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries.

Liabilities for life and health insurance have been determined using the policy premium method. Annuity liabilities have been established using the cash flow valuation method.

Assumptions used to calculate actuarial liabilities consist of two components - a "best estimate" and a margin for adverse deviation.

c) Assumptions

In the computation of actuarial liabilities, "best estimate" assumptions covering the lifetime of the policies have been made for many variables including mortality, morbidity, investment returns, rates of policy termination, operating expenses, inflation, policyholder dividends and taxes. Assumptions are reviewed annually based on studies of the major experience factors. The change in actuarial liabilities resulting from assumption revisions is recognized in income immediately. The methods for arriving at the most important assumptions are outlined below.

Mortality The mortality assumption for individual life insurance is based on a combination of company and industry experience. An explicit provision is held for additional death claims resulting from AIDS. Recent experience has been more favourable than that assumed in the calculation of actuarial liabilities. A decrease of 1% in the mortality assumption for individual life insurance would reduce the actuarial liabilities by $3,800 (1998 - $4,300).

For annuities and group life insurance, the mortality assumption is derived from industry experience tables. Mortality improvement has been projected in future years for annuitants.

Morbidity Morbidity assumptions are made with respect to the rates of claim incidence and termination for accident and sickness business. The key morbidity assumption for the company is the termination rate for group long-term disability claims. This assumption is based on industry experience modified to reflect emerging company experience.

Investment Returns The company maintains asset segments backing specific lines of business. For each segment, the assumption for future investment yield is based on the current yield rate, a reinvestment assumption and an allowance for future credit losses. For business valued using the cash flow valuation method, projections of future asset and liability cash flows under multiple economic scenarios are used to determine the actuarial liability.

Expenses Policy maintenance expense assumptions are derived from the company's internal cost studies without any adjustment for productivity gains. An inflation assumption consistent with the investment return is incorporated in the estimate of future expenses.

Policy Termination Policyholders may allow their policies to terminate by choosing not to continue to pay premiums. Policy termination rates are mainly based on the company's own experience. The assumptions reflect differences in termination patterns for different types of contracts.

A block of policies is considered to be lapse-supported if an increase in ultimate lapse rates increases profitability. The company has reflected the emerging trend of lower lapse rates for lapse-supported products.

d) Provision for Adverse Deviation

To recognize the uncertainty in establishing the best estimate assumptions, to allow for possible deterioration in experience and to provide greater comfort that actuarial liabilities are adequate to pay future benefits, a margin is included in each assumption. With the passage of time, and resulting reduction in estimation risk, these margins are released into income.

A range of allowable margins is prescribed by the Canadian Institute of Actuaries. In most cases the company maintains margins at the conservative end of the allowable range.

December 31, 1999 (thousands)

e) Changes in Actuarial Liabilities

Changes in actuarial liabilities during the year were caused by the following business activities and changes in actuarial assumptions:

	1999	1998
Actuarial liabilities at the beginning of the year	$ 928,639	$ 914,932
Normal changes a) New Business	126,905	96,640
b) In Force	(31,457)	(62,879)
Changes in assumptions	(20,672)	(12,808)
Changes in method	(5,360)	-
Valuation system conversion	(982)	(7,246)
Reinsurance transactions	1,675	-
Adjustment for future income taxes	(6,058)	-
Actuarial liabilities at the end of the year	$ 992,690	$ 928,639

In 1999 actuarial liabilities were adjusted to incorporate the effect on future cash flows attributable to differences between statement and tax actuarial liabilities.

The company used a new method for the valuation of universal life insurance as prescribed by the Canadian Institute of Actuaries for 1999 year end valuations. In addition, the valuation method for accidental death benefits was changed from the net level premium method to the policy premium method.

The major assumption changes in 1999 are described below. The changes had a material impact on the company's net income in the current reporting period.

Mortality Actuarial liabilities were reduced by $18,600 due to changes in mortality assumptions and a scheduled decrease in the AIDS provision. The new assumptions reflect continuing favourable mortality experience for individual insurance, individual annuities and assumed group life.

Morbidity Expected termination rates for group long-term disability claims were revised based on company experience and the recent termination study conducted by the Canadian Institute of Actuaries. Morbidity assumptions for group creditor disability business were also updated. The margins for adverse deviation were increased to reflect the level of uncertainty associated with these assumptions. The net effect of these changes was a decrease in actuarial liabilities of $4,000.

Investment Returns Current reinvestment rates have risen since the last valuation was performed while portfolio yields have continued to decline. As a result, actuarial liabilities decreased by $4,300.

Expenses Actuarial liabilities increased by $2,300 for assumed lines of business due to refinements in the allocation of expenses between policy acquisition and policy maintenance.

Policy Termination Lapse rate assumptions were updated for all products. The revisions produced an increase in liabilities of $4,100. Lapse-supported products were particularly affected.

f) Assets Supporting Actuarial Liabilities

The company manages assets, liabilities, capital and surplus within seven major segments depending on the investment objectives which are appropriate for each segment. The distribution of net assets (general provisions are recorded against Capital & Surplus until such time as they become specific) within each segment was as follows:

1999

	Individual Insurance	Deferred Annuities	Immediate Annuities	Group Pension	Group Life	Accident & Sickness	Capital & Surplus	Total
Bonds	$ 232,582	$ 9,034	$ 65,494	$110,134	$ 24,983	$ 82,039	$ 72,294	$ 596,560
Stocks	6,153	-	-	-	-	-	92,978	99,131
Mortgages	158,871	61,657	43,176	85,978	16,640	77,314	(2,542)	441,094
Real estate	-	-	-	-	-	-	26,341	26,341
Other	40,228	37,765	2,524	10,023	36,982	75,593	60,047	263,162
Total assets	437,834	108,456	111,194	206,135	78,605	234,946	249,118	1,426,288
Less:								
Deferred gains	19,342	115	5,057	6,527	622	4,382	23,218	59,263
Other liabilities	93,413	812	2,002	17	18,456	33,735	18,306	166,741
Net assets	$ 325,079	$107,529	$ 104,135	$199,591	$ 59,527	$ 196,829	$ 207,594	$1,200,284

1998

	Individual Insurance	Deferred Annuities	Immediate Annuities	Group Pension	Group Life	Accident & Sickness	Capital & Surplus	Total
Bonds	$ 233,833	$ 7,808	$ 65,684	$107,843	$ 25,302	$ 82,703	$ 60,248	$ 583,421
Stocks	4,666	-	-	-	-	-	82,877	87,543
Mortgages	132,324	73,587	37,842	77,430	18,898	55,433	550	396,064
Real estate	-	-	-	-	-	-	28,923	28,923
Other	53,667	30,217	475	5,183	26,666	65,194	53,294	234,696
Total assets	424,490	111,612	104,001	190,456	70,866	203,330	225,892	1,330,647
Less:								
Deferred gains	17,699	88	4,711	6,405	598	3,696	25,637	58,834
Other liabilities	90,934	1,360	763	544	18,781	30,537	17,082	160,001
Net assets	$ 315,857	$110,164	$ 98,527	$183,507	$ 51,487	$ 169,097	$ 183,173	$1,111,812

8. Reinsurance

a) Ceded

Reinsurance has been used to reduce risk by limiting the company's exposure to a single claim and a single event. The company reinsures all insurance amounts in excess of $250 per life and all monthly income amounts in excess of seventeen hundred per month for non-experience rated group long-term disability business. For certain individual life products the company retains less than $250 per life. In addition, death claims in excess of $1,000 resulting from a loss occurrence involving three or more lives are reinsured. Although claims in excess of these limits are recoverable from the companies that have assumed the reinsurance coverage, the company remains primarily liable to the beneficiaries on these policies.

For products sold to and through credit unions, the company has a coinsurance agreement transferring 50% of all risks on this business.

As a result of these reinsurance arrangements, actuarial liabilities have been reduced by $62,157 (1998 - $46,433). Reinsurance premiums paid during the year were $17,081 (1998 - $15,119).

b) Assumed

The company has a coinsurance agreement under which it assumes 50% of all risks on business written on credit union members by another federally licensed life insurance company. Reinsurance premiums received during the year were $80,515 (1998 - $70,055) and actuarial liabilities have been increased by $73,127 (1998 - $71,060).

9. Liquidity

Liquidity risk refers to the ability of the company to raise funds to meet financial commitments as they fall due. Sources of liquidity include the ongoing net cash flow of the company and the sale of liquid assets at fair market value. As shown below, the company maintains a high level of liquid assets to ensure that cash demands can be readily met. Additional liquidity is available through unused bank lines of credit.

Liquid assets

	Fair Value 1999	Fair Value 1998
Cash and short term investments	$ 107,147	$ 88,183
Marketable securities		
Federal and provincial bonds	304,645	320,936
Corporate and municipal bonds	272,984	327,266
Common stocks	54,800	42,041
Preferred stocks	34,740	33,628
	$ 774,316	$ 812,054

Liquidity risk varies by line of business based on contractual rights to make cash withdrawals and other distinct product features. It is unlikely that all demand liabilities will be withdrawn at the same time. The liquid assets exceed the liquidity needs of the liabilities by a wide margin as illustrated by the following table. Approximately 60% of policy liabilities are not cashable prior to maturity or are subject to market value adjustments.

Policy liabilities

	Book Value 1999	Book Value 1998	Liquidity Need
Policies with no surrender values	$ 389,976	$ 358,599	Nil
Policies with surrender values subject to market value adjustment	284,172	263,716	Low
Policies with no surrender charges	463,245	445,531	High
	$ 1,137,393	$ 1,067,846	

10. Fair Value

It is the investment policy of the company that assets be chosen for their amount and cash flow characteristics to match the policy liability cash flows. Consequently, changes in the fair values of assets supporting liabilities will be offset mainly by changes in fair value of those liabilities. Conversely, changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus when realized.

	Assets Supporting Liabilities		Total Assets	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	$ 60,478	$ 60,478	$ 109,147	$ 109,147
Bonds	524,265	537,582	596,560	607,143
Stocks	6,153	6,178	99,131	104,205
Mortgages	443,636	446,530	441,094	449,571
Real estate	-	-	26,341	28,703
Policy loans	32,689	32,689	32,689	32,689
Premiums due	16,993	16,993	16,993	16,993
Amounts on deposit with reinsurers	77,677	77,677	77,677	77,677
Accrued investment income	14,271	14,271	14,271	14,271
Other	1,008	1,008	12,385	12,385
Total	$ 1,177,170	$ 1,193,406	$ 1,426,288	$ 1,452,784
Deferred Net Gains				
Bonds	$ 34,059	$ -	$ 36,997	$ -
Stocks	1,250	-	20,689	-
Mortgages	736	-	736	-
Real estate	-	-	841	-
Total	$ 36,045	$ -	$ 59,263	$ -

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11. Subordinated Debt

In 1995, the company issued $5,000 in subordinated debt to its ultimate parent, The Co-operators Group Limited. The subordinated debt qualifies as capital under the rules of the Office of the Superintendent of Financial Institutions Canada. It has interest payable in semi-annual instalments at the one-year Treasury Bill rate plus 110 basis points, set every November. The principal is due November 1, 2094. The debt is subordinated in right of payment to all policy liabilities of the company and all other senior indebtedness of the company. The fair value of the debt approximates the carrying value.

12. Capital

(Number of shares not in thousands)

Authorized:

100,000	common shares
250,000	preference shares, issuable in series with attributes set by the Board of Directors. Shares are only redeemable on approval of the board and the regulators.

		1999	1998
Issued and fully paid:			
20,000	common shares	$ 1,000	$ 1,000
20,000	non-cumulative redeemable preference shares	2,000	2,000
50,000	non-cumulative redeemable second preference shares	5,000	5,000
		$ 8,000	$ 8,000

13. Income Taxes

Income taxes reflect an effective tax rate which differs from the general corporate tax rate for the following reasons:

	1999	1998
Combined basic Canadian federal and provincial income tax rate	45.0%	45.0%
Income taxes based on above rate	$ 20,490	$ 18,920
Increase (decrease) resulting from permanent differences arising from:		
Non taxable dividend income	(1,160)	(1,270)
Excluded portion of capital gains	350	(200)
Other	610	(610)
Large corporations tax	310	260
	$ 20,600	$ 17,100
Income tax expense is comprised of the following:		
Current	$ 15,000	$ 13,100
Future	5,600	4,000
	$ 20,600	$ 17,100
The future income tax liability (asset) is comprised of the following:		
Bonds and mortgages	$ (2,500)	$ (1,500)
Stocks	(9,700)	(10,100)
Real estate	(800)	-
Other assets	(700)	(1,200)
Actuarial liabilities	15,400	8,900
	$ 1,700	$ (3,900)

14. Participating Account

The company issues insurance contracts to policyholders which provide for their participation in the profits of the operation. The undistributed participating policyholder income is $22,794 (1998 - $14,205).

These policyholders will, based on the contribution of the class of policy to the distributable surplus, be eligible to participate in the distribution of the surplus by means of annual dividends. Equity is maintained between classes of policyholders and generations of policyholders. The dividends paid during the year were $13,156 (1998- $10,476).

The accrual method is used to determine the shareholder portion of participating income. Reflected in shareholder income for the year is its share of participating income of $2,109 (1998- $1,352). Section 461 of the Insurance Companies Act (The Act) allows a transfer from the participating account to the shareholders' account based on actual dividends paid during the year. The amount allowed under The Act is $973 (1998-$783). The additional amount of $1,136 (1998-$569) is appropriated in the participating account for distribution when allowed by The Act. The total amount appropriated at the end of the year is $11,234 (1998-$9,684).

Notes to the Financial Statements

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15. Net Income Available To Shareholders

The net income available to shareholders includes the net income of the life branch non-participating policies, accident and sickness business, investment earnings credited to the shareholders' account and the shareholder portion of participating policyholder income before dividends.

16. Related Party Transactions

The company's ultimate parent is The Co-operators Group Limited. In the normal course of business the company provides group insurance programs and leases space to companies in the group. It obtains investment counselling and property management services from certain companies in the group. Product distribution is provided by Co-operators General Insurance Company, and management services are provided by the parent. With the exception of management services, all the other services are in the normal course and are established at terms and conditions using available market information. The following summary indicates the company's transactions with related parties during the year:

	1999	1998
Premiums	$ 7,582	$ 6,757
Investment expenses	2,657	2,611
Marketing expenses	24,713	22,864
General expense	1,508	1,491

Included in the company's balance sheet at December 31, 1999 are amounts due to related parties of $802 (1998 - $1,059) and amounts due from related parties of $3 (1998 - $6).

Balances outstanding at the year-end represent current trade accounts with the related parties and are generally settled in 30 days. No security is held.

17. Statement of Cash Flow

a) The investing activities shown in the Statement of Cash Flow are comprised of the following:

1999	Advances and Purchases	Sales and Redemptions	Net
Bonds	$ 203,500	$ 200,168	$ (3,332)
Stocks	50,638	41,753	(8,885)
Mortgages	118,952	70,515	(48,437)
Policy loans	9,173	6,572	(2,601)
Real estate	220	400	180
	$ 382,483	$ 319,408	$ (63,075)

1998	Advances and Purchases	Sales and Redemptions	Net
Bonds	$ 257,991	$ 276,192	$ 18,201
Stocks	28,892	34,247	5,355
Mortgages	76,955	62,416	(14,539)
Policy loans	6,948	4,880	(2,068)
Real estate	20	2,139	2,119
	$ 370,806	$ 379,874	$ 9,068

b) Cash comprises of the following:

	1999	1998
Short-term investments	$ 112,973	$ 90,822
Bank overdraft	(3,826)	(2,639)
	$ 109,147	$ 88,183

c) Supplemental cash flows are as follows

	1999	1998
Interest and dividends received	$ 81,345	$ 82,031
Interest paid	4,854	4,610
Income taxes paid	11,864	[illegible]

18. Contingent Liabilities

In common with the insurance industry in general, the company is subject to litigation arising in the normal course of conducting its insurance business. The company is of the opinion that this litigation will not have a significant effect on the financial position, results of operations or cash flows of the company.

19. Joint Ventures

The company is involved in a number of joint ventures for the purpose of developing its insurance business. One of the joint ventures is with a federally licensed life insurance company to reach a common insurance market in which the business is shared 50 percent. In addition, the company has entered into several real estate joint ventures with varying partners and interests, for the purpose of earning income for the insurance operations.

	1999	1998
Assets	$ 114,467	$ 111,023
Liabilities	96,020	92,672
Revenue	89,292	87,725
Expenses	78,946	75,974
Net income	10,346	11,751
Cash flow - Operating activities	14,889	19,153
Cash flow - Financing activities	(1,918)	(3,981)
Cash flow - Investing activities	180	119

20. Year 2000

The Year 2000 issue arises because many computer systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information that uses year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

21. Comparative Figures

Certain prior year items have been reclassified to conform to current year presentation.

Notes

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A Better Place For You™

At The Co-operators, we have long recognized that our success depends on the well-being of the communities in which we operate. That belief continues to be a guiding force in the way we conduct our business.

Meeting Our Customers' Needs We are an integral part of the communities we serve. Each year, we continue to introduce products designed to meet the changing needs of our customers.

Looking to the Future Regulation, strong competition and an increasingly sophisticated market have combined to change the way insurance is marketed. Co-operators Life is managing change today like no other time in its more than 50-year history.

Strong and Growing Stronger With nearly $2 billion in assets under management, Co-operators Life is the country's 13th largest life insurance company. We continue to observe the highest standards of prudent financial management in order to protect the security of our policyholders and help them meet their future needs.

Personnel & Locations

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Chuck Wilson, vice-president and general counsel

Bryan Sigurdson, vice-president and chief actuary

Rein Tabur, vice-president, investments

Board of Directors
Co-operators Life Insurance Company

British Columbia
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Peter Podovinikoff

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Nadia Martin
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